Customer Relationship Management and the IDIC Model in retail banking

Work Project based on MIM Business Project

"Development of Smart Banking concept in Citi Hadlowy"

elaborated at Warsaw School of Economics

with the collaboration with Citi Handlowy

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Master in Finance

Index

Brief Context of the Business Project

Company

Bank Handlowy, better known as Citi Handlowy, is a Polish retail bank established in 1870 and currently based in Warsaw. It is one of the oldest banks in Poland, actually the 10th largest in terms of assets. It is operating under the brand name Citi and it is owned by Citigroup. In the early years of the 20th century, the bank was the largest private bank in Polish lands and one of the few leading financial services institutions to trade with Russia and Western Europe. The bank made a significant contribution to the construction of the railway network and major industrial plants in the Polish Kingdom. The bank did not stop its activities during the World War II, but only liquidated its branches in the areas annexed by Germany. After 1945, it became the main Polish foreign correspondent bank, and in 1964 it received the official monopoly on Polish foreign trade transactions. In 1997, the bank went private. In 2001, Bank Handlowy merged with Citibank Poland SA. Currently, its largest shareholder is Citibank, with 75% of the shares with voting rights. Since June 1997, Bank Handlowy has been listed on the Warsaw Stock Exchange, on the WIG30 index.

Market overview[1]

One of the reasons Poland was not hit as hard as its European contemporaries by the 2008-09 financial crisis is because it had a healthy banking system that did not require any public aid. Conservative business models meant that Polish banks largely kept distance from the complicated financial derivatives instruments that eventually wreaked havoc in the Western world's banking system. And although it was feared that overseas parent banks (over 70% of Poland's banking system is in foreign hands) would withdraw funds from their subsidiaries in order to bolster lending activities in their domestic markets, this ultimately did not happen.

Poland's banks are in healthy shape today as well. In the last year, they recorded a record-high aggregate net profit of 16.2 PLN billion, a 4% year-on-year increase, according to data from the National Bank of Poland. This despite a marked slowdown in the Polish economy, with a GDP which grew by just 1.9% in 2012, compared to 4.5% in 2011. Meanwhile, in the opinion of the rating agency Fitch, the 2013 outlook for the Polish banking sector remained stable, despite weaker than expected growth and profitability.

Deloitte[2] described the banking sector in Poland as the biggest in Central Europe. It also stated that the Polish market is far from being saturated. Indeed, the banking market penetration in Poland has much room for an increase. Of the addressable group, 20.4 million Polish people are already customers of at least one bank, so the penetration ratio stands at 67%. According to the advisory, the penetration ratio in Poland will increase in the years to come and will reach 73% in 2015, 78% in 2020 and 82% in 2025.

Current client situation

Citi Handlowy is currently facing problems in imposing itself as a dominant financial institution in a very competitive market such as Polish retail banking, especially considering that it is not perceived as a "top-of-mind" brand. Indeed, Citi's Brand Potential[3], which can be defined as the likelihood of growing shares of a brand over a year if brand power was the only determining element, was steadily scoring 2 throughout 2013, while top brands scored between 10 and 16. Additionally, a significant distance in terms of brand potential has been assessed with respect to other banks perceived as "smart" (e.g. GetIn, ING, mBank), which can be considered as Citi's main competitors.

Business Project challenge

The title of the Business Project was "Development of Smart Banking concept in Citi Hadlowy". The main objective of this project was to analyze opportunities and suggest recommendations regarding marketing communications and initiatives aimed at accelerating Smart Ecosystem development and strengthening Citi's brand as a leader in innovation and digital banking.

In total agreement with the company, it has been decided to proceed as follows: first of all, the market the company operates in and its trends have been carefully assessed, and the concept of smart banking and its main competitors have been analyzed, with the finding that Citi's position in the Polish retail banking sector, which still relies on branches but is rapidly shifting towards digitalization, was pretty weak. Subsequently, the objectives of the projects, i.e. re-launching the brand, boosting purchase consideration and, ultimately, increasing the customer base, have been set. Afterwards, a marketing communication theoretical framework has been developed, in order to tackle the issues Citi was facing. The framework has been used as a starting point for the core part of the project, the last one, where numerous ideas and marketing initiatives have been proposed in order to reach the above mentioned goals.

Summary of conclusions

Confident about the goodness of the analysis performed and backed by a strong theoretical background, the final outcome of the project is represented by several ideas and marketing initiatives, which are aimed to help Citi Handlowy reaching its qualitative and quantitative goals, as mentioned above.

Further Development of a Specific Topic

Introduction

The business project mainly focused on how to acquire new customers, i.e. increasing Citi's customer base through smart banking. This is for sure an important goal for a growing financial institution, as customers are the only source of revenues and there is no business without customers.

Considering the increasingly competitive environment in which Citi Handlowy operates and its actual weak position in customers' minds, the company should also pay more attention to its current customer base, in order to make clients satisfied with the services offered by the bank and prevent them to leave for a competitor. This concept gets even more significant under the consideration that acquiring a new customer costs approximately five times more than retaining a current one[4]. However, given the scope of the business project and its restrictions, it has not been possible to make further developments in this direction, despite the importance of the topic. Therefore, the following dissertation will give it the relevance it actually deserves.

Customer Relationship Management concepts

The concepts that are going to be emphasized throughout the next pages are borrowed from a discipline known as Customer Relationship Management (CRM), which can be defined as an enterprise-wide business strategy for achieving customer-specific objectives by taking customer-specific actions[5]. This definition, with the goal to increase the value of each customer, implies that the firm takes customer-specific actions for each customer, often made possible by new technologies. Once a customer-centric strategy has been established, a company should focus on its relationships with customers, in order to make the information flow between the two parties mutually beneficial. Indeed, customers would give precious information about themselves in return for improved and personalized services which meet their specific needs. This is technically called "learning relationship", a collaborative dialogue between the enterprise and each of its customers, which grow smarter and smarter with each successive interaction[6]. If this approach is effectively implemented by a company, it becomes more worthwhile for the customer to remain loyal to the company than to switch to a competitor. Recently, such one-to-one interactions have been facilitated by technology, which however have also played a crucial role in increasing customers' expectations to be treated as individuals and not be considered as mass anymore. To wrap up, companies should seek to retain their customers through the implementation of an enterprise-wide customer-centric strategy that focuses on learning relationships with each one of their customers.

Yet, customer retention does not necessarily translate into customer loyalty. According to Barnes[7], indeed, retention, intended as customers keep buying from a company over time, is essentially a behavioral concept. There are many ways in which businesses succeed in encouraging customers to return, none of which leads to the establishment of customer relationships. Retention is a form of loyalty which can be considered behavioral; relationships imply the existence of a higher level of loyalty, which is defined as attitudinal. In brief, attitudinal loyalty is in the customer’s state of mind, while behavioral loyalty relies on customer’s actual conduct. However, both concepts are important to be assessed, as attitudinal loyalty without behavioral loyalty has no financial benefit for a firm, but behavioral loyalty with attitudinal loyalty is unsustainable.

In order to reach attitudinal loyalty at a first stage and then transform it into a behavioral one, the individual mutual relationships that a company has with its customers must be permeated with trust. Nonetheless, although the element of trust is an indispensable component of a healthy, growing relationship, it may not be an absolute requirement for every relationship. A customer may remain in relationship with a company either because he desires so or simply because he perceives no suitable alternative. The customer’s own level of commitment to his relationship with a company will depend on the extent to which the relationship derives from dedication, rather than from constraint. Trust-based relationships foster dedication[8]. A relationship of trust is one in which both parties feel “comfortable” continuing to interact and deal with each other, whether during a purchase, an interaction, or a service transaction. The importance of the impact of trust-based long lasting relationships is that companies would get access to a wide range of information about their customers. It is customer information that gives an enterprise the capability to differentiate its customers one from another. Individual customer information, if used properly, can yield a return for many years. It is therefore possible to conclude that customer information is an economic asset, which has the capability to improve an enterprise’s productivity and reduce its unit costs, and trust is the currency of all commerce[9].

Setting up and managing individual customer relationships is a relatively long process that requires trust and that can be implemented in a sequence of four different steps, following the IDIC model developed by the Peppers & Rogers Group, which will be presented in the following paragraph. The implementation of those steps, however, is based on the unique, customer-specific, and iterative character of such relationships.

The IDIC model[10]

According to IDIC model, companies should walk through the four following steps in order to build closer one-to-one relationships with customers:

1. **Identify customers**. Relationships are possible only with individuals, not with markets, segments, or populations. Therefore, the first task in setting up a relationship is to identify, individually, the party at the other end. Many companies don't really know the identities of many of their customers, so for them this first step is difficult but absolutely crucial. For all companies, the "identify" task also entails organizing the enterprise's various information resources so that the company can take a customer-specific view of its business. It means ensuring that the company has a mechanism for tagging individual customers not just with a product code that identifies what's been sold but also with a customer code that identifies the party that the enterprise is doing business with – the party at the other end of the mutual relationship. An enterprise must be able to recognize a customer when he comes back, in person, by phone, online, or wherever. Moreover, enterprises need to "know" and remember each customer in as much detail as possible – including the habits, preferences, and other characteristics that make each customer unique.

2. **Differentiate customers**. Knowing how customers are different allows a company firstly to focus its resources on those customers which will bring in the most value for the enterprise, and then to devise and implement customer-specific strategies designed to satisfy individually different customer needs and improve each customer's experience. Customers represent different levels of value to the enterprise, and they have different needs from the enterprise. The customer's needs drive his behavior, and his behavior is what the enterprise observes in order to estimate his value. Although not a new concept, customer grouping – the process by which customers are clustered into categories based on a specified variable – is a critical step in understanding and profitably serving customers. Specifically, the "customer differentiation" task involves an enterprise in categorizing its customers by both their value to the firm and by what needs they have.

3. **Interact with customers**. Enterprises must improve the effectiveness of their interactions with customers. Each successive interaction with a customer should take place in the context of all previous interactions with that customer. Effective customer interactions provide better insight into a customer's needs and don't waste a customer's time by asking the same question more than once, even in different parts of the organization.

4. **Customize treatment**. The enterprise should adapt some aspects of its behavior toward a customer, based on that individual's needs and value. To engage a customer in an ongoing learning relationship, an enterprise needs to adapt its behavior to satisfy the customer's expressed needs. Doing this might entail mass-customizing a product or tailoring some aspect of its service. Mass customization is really mass configuration, which means to create and pre-produce product and service modules, to configure modules to meet individual customer needs, i.e. producing thousands of possible configurations.

As a model for customer relationship management processes, the IDIC model can be applied in any number of situations. In the rest of this chapter, it will be applied to the retail banking sector.

Practical implementation

The first step in implementing the IDIC model is the identification, which consists in gathering, storing and analyzing customer data, in order to create a sort of customers' knowledge which should then be available at all levels within the organization. This step is quite challenging in retail banking. Even though banks enjoy a larger data availability when compared to companies operating in different sectors, this information consists largely in hard data, such as demographic information, transaction details, product information and contact information. There is a very limited amount of soft data, such as customers' needs and preferences. Another issue at this stage is that the analysis of data is predominately done at an aggregate level, and not at an individual level, and it is not always performed in the perspective of a long-term relationship. Moreover, retail banks have historically been organized along lines of business; such a structure has created several siloed business entities within a single bank. In order to manage customer information more effectively, banks need to eliminate these silos of customer information by integrating data, systems and processes across the different product lines so that relevant, up-to-date customer information can be shared with customer-facing employees.

The second step of the model consists in differentiating and targeting customers. The concept is defined as the individual differentiation of customers based on value or needs, which gives companies the opportunity to target customers according to this differentiation. Retail banks do not individually differentiate customers based on value or needs. Instead, they differentiate customer groups and segments mainly based on certain customer characteristics and overall actual or potential customer value. Knowing which customers are more valuable allows a bank to allocate its relationship-building efforts to concentrate first on those customers that will yield the best financial return. However, because the future behaviors of any customer are not something that can actually be known at the present, making decisions with respect to customer valuation necessarily involves approximation and subjectivity. Companies like banks, with large numbers of customers whose transactions are electronically tracked in a detailed way, might be able to use statistical modeling techniques to make reasonably accurate forecasts of the future business that particular types of customers will be likely to do with the firm, but for the vast majority of enterprises, no such scientific models are readily available[11]. Retail banks, thus, have a value-based differentiation in place, which however does not prevent them to find great cross-selling and up-selling opportunities.

The third step in the model consists in interacting and collaborating with customers. Retail banks are surely aware of the importance of having contacts and dialogue with customers, but they are limited in this because of the rather vague nature of relationships between a customer and the bank, which usually allow a very limited contact between the two parties. However, banks are focusing on more efficient and effective ways of customer interaction, also following customers' need to interact with their banks using a range of different channels. However, in recent times, multi-channel interactions brought up the issue of channel-specific customer data and lack of integration between channels, which are often managed separately from one another. The result is little or no sharing of information across the different channels, duplication due to channel-specific processes and a disjointed, unsatisfactory multi-channel experience for the customer. If able to properly coordinate and integrate multi-channel interactions, banks would easily improve their relationships and two-way collaborations with customers.

The last step of the model consists in customizing and personalizing the range of products and services offered to each customer. When it comes to retail banking, the customization process can be defined either as collaborative, offering customized products which result from individual customers' dialogues, identifying which product offering best meets their needs, or as transparent, through customized products or services offered without the customer necessarily knowing about it. However, the process of customization is only partially available, as many financial products offered by banks are quite standardized and could only be customized for groups of customers rather than for individuals, e.g. investment products with a certain risk profile, concessional loans for students, etc. Nevertheless, many retail banks have developed a successful mass-customization model that has changed the industry. By gathering and analyzing consumers' behaviors and customers' data through technologically advanced systems, banks can forecast trends and strategically shift its focus away from commoditized products to move into mass customization. Such a strategy has enabled banks to leverage their information resources to identify certain types of customers and then to send them the marketing materials about products that would likely interest them.

Reflection on learning

Masters contents applied

I have always been passionate about finance. I have gained a bachelor in Economics and Finance, Finance, I am actually writing this work project as Master in Finance, and I will soon start working as financial analyst for a multinational company. When I had to choose the CEMS Business Project I went through the list of proposed topics and I was surprised about how far them were from finance. So, after a careful evaluation of the proposals, I decided to go for the one which seemed closer to my interests, at least because of the sector in which the company supporting the business project operates. Eventually, it proved to be as far from finance as all the other projects. I do not regret of my decision to go for it, even though I have applied little or no knowledge deriving from my Master in Finance. However, the knowledge gained during the first semester of my CEMS year, especially in the field of marketing, helped me quite a lot throughout the realization of this business project. Moreover, I definitely benefited from the work attitude and methodology experienced during the time of the Master in Finance.

New knowledge gained

As of its purpose, the business project has been developed as a bridge between research and consulting. Therefore, I gained knowledge both in terms of hard and soft skills.

When it comes to hard skills, the project gave me the chance to deepen my knowledge about some marketing concepts that I was already aware of, but without mastering them. For example, I gained more accurate knowledge about the objectives of a communication campaigns (i.e., category need, brand awareness, brand attitude, purchase intention, purchase facilitation) and some elements of brand management (i.e., brand identity). And even more importantly, I have had the chance to apply these theoretical concepts into practice.

Speaking about soft skills, I became acquainted with the consulting approach used to tackle big and structured projects. It consisted in taking the role of an expert, providing advice and assistance to the company, in order to help it solving the project-related issues. For the sake of doing so, it needed quite a lot of preparation work to become an “expert” in what I have been working on, to be sure of being able to address any possible question coming from the company’s side.

Personal experience

Considering its scope and breadth, taking part to such a project has given me the opportunity to develop my analytical skills, by analyzing huge amounts of data, in a consulting-wise approach. It has also been useful to sharpen my literature research competences, particularly referring to the research done to develop the theoretical background from which to drive the proposed marketing initiatives. Moreover, the project has improved my creativity, as it made me thinking about potential ideas and marketing initiatives which could possibly improve Citi's perception and attract new customers through the concept of smart branch. Since it was a group project, it has definitely boosted my capabilities to act as a team-player: indeed, I cooperated with two Polish guys, with quite different habits and working styles, one of them already working and, thus, without much time to dedicate to this project, and the other not really involved into the project. In addition, unlike me, they did not have any time restriction from their university about when to deliver the final outcome of the project. Under these circumstances, I pushed myself to take the leadership of the group, trying to motivate them and dealing with organizational issues, such as setting up meetings with the company, or structuring our periodic amount of work.

During the development of the business project I have also had the chance to find out some areas of improvement about myself. Particularly, I have realized that I am particularly susceptible to the pressure of the deadlines when I act as a leader, when the most of the responsibility is on me. It was actually one of the first times I experienced such feeling, probably because it was the first time I was accounting myself responsible of the whole work. However, as a lesson for the future, I will try to control it, first of all by working on the empowerment of all the other group members, so to be sure to have all of them on board and to make their interests aligned to the aim of the project from the earliest stage of the work.

Final personal remarks

Ultimately, it has been a really positive experience, different from all the countless group works I have previously carried out in my academic career, as this time it involved the supervision of a company. The only thing that I would actually have preferred to have differently from what it has been is the approach of the company: sometimes it has been too passive, occasionally also giving the impression (to me, personally) that it could not care less about the project. This made the collaboration a little bit more difficult to evolve, especially taking into consideration the peculiar situation described above about my group mates. However, the settings of the business projects and all the challenges encountered throughout have made it an extremely valuable experience for my personal development and my professional career.

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